

**F.No. CBEC-20/06/13/2019-GST**  
**Government of India**  
**Ministry of Finance**  
**Department of Revenue**  
**Central Board of Indirect Taxes & Customs**  
**GST Policy Wing**

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New Delhi, dated the 23<sup>rd</sup> March, 2020

To,

The Principal Chief Commissioners/Chief Commissioners/Principal Commissioners/ Commissioners of Central Tax (All) / The Principal Director Generals/ Director Generals (All)

Madam/Sir,

**Sub: Clarification in respect of apportionment of input tax credit (ITC) in cases of business reorganization under section 18 (3) of CGST Act read with rule 41(1) of CGST Rules - reg.**

Representations have been received from various taxpayers seeking clarification in respect of apportionment and transfer of ITC in the event of merger, demerger, amalgamation or change in the constitution/ownership of business. Certain doubts have been raised regarding the interpretation of sub-section (3) of section 18 of the Central Goods and Services Tax Act, 2017 (hereinafter referred to as the CGST Act) and sub-rule (1) of rule 41 of the Central Goods and Services Tax Rules, 2017 (hereinafter referred to as the CGST Rules) in the context of business reorganization.

2. According to sub-section (3) of section 18 of the CGST Act,

*“Where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provisions for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilized in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed.”*

Further, according to sub-rule (1) of rule 41 of the CGST Rules:

*“A registered person shall, in the event of sale, merger, de-merger, amalgamation, lease or transfer or change in the ownership of business for any reason, furnish the details of sale, merger, de-merger, amalgamation, lease or transfer of business, in **FORM GST ITC-02**, electronically on the*

common portal along with a request for transfer of unutilized input tax credit lying in his electronic credit ledger to the transferee:

*Provided that in the case of demerger, the input tax credit shall be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme.*

**Explanation:-** For the purpose of this sub-rule, it is hereby clarified that the “value of assets” means the value of the entire assets of the business, whether or not input tax credit has been availed thereon.

3. The issues raised in various representations have been analyzed in the light of various legal provisions under GST. In order to ensure uniformity in the implementation of the provisions of the law, the Board, in exercise of its powers conferred by sub-section (1) of section 168 of the CGST Act clarifies the issues involved in the Table below.

| S. No. | Issue / Question                                                                                                                                                                                                                                                                                                                                          | Clarification                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| a.     | (i) In case of demerger, proviso to rule 41 (1) of the CGST Rules provides that the input tax credit shall be apportioned in the ratio of the value of assets of the new units as specified in the demerger scheme. However, it is not clear as to whether the value of assets of the new units is to be considered at State level or at all-India level. | <p>Proviso to sub-rule (1) of rule 41 of the CGST Rules provides for apportionment of the input tax credit in the ratio of the value of assets of the new units as specified in the demerger scheme. Further, the explanation to sub-rule (1) of rule 41 of the CGST Rules states that “value of assets” means the value of the entire assets of the business, whether or not input tax credit has been availed thereon. Under the provisions of the CGST Act, a person/ company (having same PAN) is required to obtain separate registration in different States and each such registration is considered a distinct person for the purpose of the Act. Accordingly, for the purpose of apportionment of ITC pursuant to a demerger under sub-rule (1) of rule 41 of the CGST Rules, the value of assets of the new units is to be taken at the State level (at the level of distinct person) and not at the all-India level.</p> <p><b>Illustration</b> A company XYZ is registered in two States of M.P. and U.P. Its total value of assets is worth Rs. 100 crore, while its assets in State of M.P. and U.P are Rs 60 crore and Rs 40 crore respectively. It demerges a part of its business to company ABC. As a part of such demerger, assets</p> |

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|    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | of XYZ amounting to Rs 30 Crore are transferred to company ABC in State of M.P, while assets amounting to Rs 10 crore only are transferred to ABC in State of U.P. (Total assets amounting to Rs 40 crore at all-India level are transferred from XYZ to ABC). The unutilized ITC of XYZ in State of M.P. shall be transferred to ABC on the basis of ratio of value of assets in State of M.P., i.e. $30/60 = 0.5$ and <b>not</b> on the basis of all-India ratio of value of assets, i.e. $40/100=0.4$ . Similarly, unutilized ITC of XYZ in State of U.P. will be transferred to ABC in ratio of value of assets in State of U.P.,i.e. $10/40 = 0.25$ . |
|    | (ii) Is the transferor required to file <b>FORM GST ITC – 02</b> in all States where it is registered?                                                                                                                                                                                                                                                                                                                                                                           | No. The transferor is required to file <b>FORM GST ITC-02</b> only in those States where both transferor and transferee are registered.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| b. | The proviso to rule 41 (1) of the CGST Rules explicitly mentions ‘demerger’. Other forms of business reorganization where part of business is hived off or business is transferred as a going concern etc. have not been covered in the said rule. Wherever business reorganization results in partial transfer of business assets along with liabilities, whether the proviso to rule 41(1) of the CGST Rules, 2017 shall be applicable to calculate the amount of transferable | Yes, the formula for apportionment of ITC, as prescribed under proviso to sub-rule (1) of rule 41 of the CGST Rules, shall be applicable for all forms of business re-organization that results in partial transfer of business assets along with liabilities.                                                                                                                                                                                                                                                                                                                                                                                             |

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|     | ITC?                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |     |     |     |     |     |     |
| c.  | (i) Whether the ratio of value of assets, as prescribed under proviso to rule 41 (1) of the CGST Rules, shall be applied in respect of each of the heads of input tax credit viz. CGST/ SGST/ IGST/ Cess? | <p>No, the ratio of value of assets, as prescribed under proviso to sub-rule (1) of rule 41 of the CGST Rules, shall be applied to the total amount of unutilized input tax credit (ITC) of the transferor i.e. sum of CGST, SGST/UTGST and IGST credit. The said formula need not be applied separately in respect of each heads of ITC (CGST/SGST/IGST). Further, the said formula shall also be applicable for apportionment of Cess between the transferor and transferee.</p> <p><b>Illustration A:</b> The ITC balances of transferor <b>X</b> in the State of Maharashtra under CGST, SGST and IGST heads are 5 lakh, 5 lakh and 10 lakh respectively. Pursuant to a scheme of demerger, <b>X</b> transfers 60% of its assets to transferee B. Accordingly, the amount of ITC to be transferred from A to B shall be 60% of 20 lakh (total sum of CGST, SGST and IGST credit) i.e. <b>12 lakh</b>.</p> |     |     |     |     |     |     |
|     | (ii) How to determine the amount of ITC that is to be transferred to the transferee under each tax head (IGST/CGST/SGST) while filing of <b>FORM GST ITC-02</b> by the transferor?                        | <p>The total amount of ITC to be transferred to the transferee (i.e. sum of CGST, SGST/UTGST and IGST credit) should not exceed the amount of ITC to be transferred, as determined under sub-rule (1) of rule 41 of the CGST Rules [refer 3 (c) (i) above]. However, the transferor shall be at liberty to determine the amount to be transferred under each tax head (IGST, CGST, SGST/UTGST) within this total amount, subject to the ITC balance available with the transferor under the concerned tax head. This is shown in the illustration below:</p> <table><tr><td>(1)</td><td>(2)</td><td>(3)</td><td>(4)</td><td>(5)</td><td>(6)</td></tr></table>                                                                                                                                                                                                                                                 | (1) | (2) | (3) | (4) | (5) | (6) |
| (1) | (2)                                                                                                                                                                                                       | (3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | (4) | (5) | (6) |     |     |     |

|    |                                                                                                                                                                                                                                                                                   | State                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Asset<br>Ratio of<br>Transfe<br>ree | Tax<br>Heads | ITC balance<br>of Transferor<br>(pre-<br>apportionmen<br>t) as on the<br>date of filing<br>FORM GST<br>ITC-02) | Total<br>amount of<br>ITC<br>transferred<br>to the<br>Transferee<br>under<br>FORM<br>GST ITC-<br>02 | ITC balance<br>of Transferor<br>(post-<br>apportionme<br>nt) after<br>filing of<br>FORM GST<br>ITC-02)<br><br>[Col (4) –<br>Col (5)] |
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|    |                                                                                                                                                                                                                                                                                   | Delhi                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 70%                                 | CGST         | 10,00,000                                                                                                      | 10,00,000                                                                                           | 0                                                                                                                                    |
|    |                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     | SGST         | 10,00,000                                                                                                      | 10,00,000                                                                                           | 0                                                                                                                                    |
|    |                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     | IGST         | 30,00,000                                                                                                      | 15,00,000                                                                                           | 15,00,000                                                                                                                            |
|    |                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     | <b>Total</b> | <b>50,00,000</b>                                                                                               | <b>35,00,000</b>                                                                                    | <b>15,00,000</b>                                                                                                                     |
|    |                                                                                                                                                                                                                                                                                   | Haryana                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 40%                                 | CGST         | 25,00,000                                                                                                      | 3,00,000                                                                                            | 22,00,000                                                                                                                            |
|    |                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     | SGST         | 25,00,000                                                                                                      | 5,00,000                                                                                            | 20,00,000                                                                                                                            |
|    |                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     | IGST         | 20,00,000                                                                                                      | 20,00,000                                                                                           | 0                                                                                                                                    |
|    |                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     | <b>Total</b> | <b>70,00,000</b>                                                                                               | <b>28,00,000</b>                                                                                    | <b>42,00,000</b>                                                                                                                     |
| d. | (i) In order to calculate the amount of transferable ITC, the apportionment formula under proviso to rule 41(1) of the CGST Rules has to be applied to the unutilized ITC balance of the transferor. However, it is not clear as to which date shall be relevant to calculate the | According to sub-section (3) of section 18 of the CGST Act, “Where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provisions for transfer of liabilities, the said registered person shall be allowed to <b>transfer the input tax credit which remains unutilized in his electronic credit ledger</b> to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed.” Further, sub-rule (1) of rule 41 of the CGST Rules prescribes that the registered person shall file the details in <b>FORM GST ITC-02</b> for transfer of unutilized input tax credit lying in his electronic credit ledger |                                     |              |                                                                                                                |                                                                                                     |                                                                                                                                      |

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| amount of unutilized ITC balance of transferor.                                                                                                   | <p>to the transferee.</p> <p>A conjoint reading of sub-section (3) of section 18 of the CGST Act along with sub-rule (1) of rule 41 of the CGST Rules would imply that the apportionment formula shall be applied on the ITC balance of the transferor as available in electronic credit ledger on the date of filing of <b>FORM GST ITC – 02</b> by the transferor.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| (ii) Which date shall be relevant to calculate the ratio of value of assets, as prescribed in the proviso to rule 41 (1) of the CGST Rules, 2017? | <p>According to <b>section 232 (6) of the Companies Act, 2013</b>, <i>“The scheme under this section shall clearly indicate an <b><u>appointed date</u></b> from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date”</i>. The said legal provision appears to indicate that the <b>“appointed date of demerger”</b> is the date from which the scheme for demerger comes into force and it is specified in the respective scheme of demerger. Therefore, for the purpose of apportionment of ITC under rule sub-rule (1) of rule 41 of the CGST Rules, the ratio of the value of assets should be taken as on the <b>“appointed date of demerger”</b>.</p> <p>In other words, for the purpose of apportionment of ITC under sub-rule (1) of rule 41 of the CGST Rules, while the ratio of the value of assets should be taken as on the “appointed date of demerger”, the said ratio is to be applied on the ITC balance of the transferor on the date of filing <b>FORM GST ITC - 02</b> to calculate the amount to transferable ITC.</p> |

4. Difficulty, if any, in implementation of the Circular may be brought to the notice of the Board.  
Hindi version would follow.

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